

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 04/19/2012
POSITION: Oppose

BILL NUMBER: AB 1538
AUTHOR: Cook, Paul

BILL SUMMARY: Recovery audits.

This bill would authorize the State Controller's Office (SCO) to contract with consultants to conduct semiannual recovery audits of payments made by state agencies to vendors.

FISCAL SUMMARY

The fiscal impact of this bill is unknown due to uncertainty concerning the efficacy of recovery audits and the particulars of the compensation system that would be used to pay consultants. No funding source has been identified for the costs associated with this bill, other than the budgets of the state agencies receiving reimbursement of recovered funds. State agencies may not have funds or spending authority available for this purpose.

COMMENTS

We are opposed to this bill for the following reasons:

- This bill would cause additional costs to be incurred by the affected state agencies that may not be absorbable.
- There is no clear evidence that existing auditing efforts are inadequate, or that the costs of the proposed approach would not outweigh the benefits.
- This bill could be contrary to current law that prohibits contracting out state services that public employees are capable of performing.
- Departments/agencies are already responsible for monitoring their expenditures to ensure they do not make overpayments. This bill would create confusion as to who is responsible.
- Departments/agencies that do not have internal audit units can contract with SCO or Finance's Office of State Audits and Evaluations (OSAE) to have the work performed.
- The SCO notes the bill would cause it to incur "potentially significant costs" for its Division of Audits to retrieve the necessary information to be provided to the recovery audit consultants.
- SCO has no formal position on this bill.

Analyst/Principal (0123) O.Chaves	Date	Program Budget Manager Veronica Chung-Ng	Date
Department Deputy Director		Date	
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

BILL ANALYSIS--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

Cook, Paul

04/19/2012

AB 1538

ANALYSIS**1. Programmatic Analysis**

This bill appears to address the perception that state agencies are making overpayments to vendors that are not being detected under the current review system. We do not have evidence that the current system of payment audits is significantly ineffectual.

Departments/agencies are already responsible for monitoring their expenditures to ensure they do not make overpayments. Departments/agencies that do not have internal audit units can contract with OSAE or the SCO to have such work performed. The Bureau of State Audits can also perform this work at the request of the Legislature. The need to hire external consultants for this work is not clearly indicated.

2. Fiscal Analysis

The lack of an identified funding source, other than the budgets of the departments receiving reimbursement of the recovered overpayments, would put pressure on the General Fund to pay the costs of compensating the consultants for their work on the recovery audits. Depending upon the effectiveness of the recovery audits, their costs may be higher than their benefits. No specific cost-benefit analysis exists for this bill. Furthermore, there is no evidence that significant amounts of overpayments exist in the first place for the recovery audit consultants to attempt to recover.

The SCO is concerned that its computerized fiscal system is not capable of producing a report with the information this bill would require SCO to provide to the recovery audit consultants. The current fiscal system is not capable of searching warrants for specified payee information, as this bill would require. Per the SCO, if payment detail information is requested from the SCO Division of Audits, claim schedules would have to be located and reviewed. This would result in "potentially significant costs" to the SCO to administer. The SCO suggests amending the bill to require the consultants to work directly with the agency or department, rather than with the SCO.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)					
	LA	(Dollars in Thousands)					
	CO	PROP					Fund
	RV	98	FC	2011-2012 FC	2012-2013 FC	2013-2014	Code
0840/Controller	SO	No		-----	potentially significant	-----	0001